

STATE OF WASHINGTON

TENTH REPORT

OF

Washington State Liquor Control
Board



October 1, 1942
TO
September 30, 1943

OLYMPIA
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DEFENDANT'S
EXHIBIT

CASE
NO. C04-0360P

EXHIBIT
NO. 432

TABLE OF CONTENTS

I. General Information	Pag
Administration of the Act.....	1
Investigation of Board by Legislative Committee.....	1
Monopoly Group	1
Purchase of Liquor Stocks of Two Kentucky Distilleries.....	1
Revenues	1
Consumption of Alcoholic Beverages.....	1
Advertising	1
Personnel	1
Legal Division	1
Enforcement Division	1
Laboratory	1
License and Control Division	
Retail Licenses	1
Inspection	1
Hearings	1
Bona Fide Clubs.....	1
Brewers and Beer Wholesalers.....	1
Domestic Wineries and Wine Wholesalers.....	1
Merchandise Division	
General Comments	1
Store Operations	1
Agency Operations	1
Warehouse	1
Bottling Plant	1
II. Financial Section	
General Comments	2
Financial Statement	2
Application of Funds.....	3
Income Statement	3
Distribution of Funds.....	3
III. Statistical Section	
Types of Licenses Issued and Fees.....	4
Types of Licenses Issued by Cities and Counties.....	4
Retail Hearings—Violations—Decisions	5
Location of Premises Involved in Hearings.....	6
IV. Liquor Purchases	
Summary of Liquor Received.....	6

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WASHINGTON STATE LIQUOR CONTROL BOARD

Report on Operations

OCTOBER 1, 1942, TO SEPTEMBER 30, 1943

The Board respectfully submits its Tenth Report on Operations, for the twelve months ended September 30, 1943, as required by Section 72 of the Washington State Liquor Act. The 1943 Session of the Legislature made certain changes in the law. Since these changes were only partially effective during the period under review, their full effect cannot be analyzed at this time. When the next report is made the Board will be in position to give a more comprehensive statement of its observation and conclusions as to progress made in connection with these changes.

Administration of the Act

The purpose of the Washington State Liquor Act is to minimize the evils connected with the liquor traffic by control of the liquor industry under a single administrative agency. The Board has from time to time made comparisons of the Washington act with the acts of other states and is firmly convinced that in so far as the requirements of this state are concerned, the Washington State Liquor Act provides a method of control superior to any other yet devised.

Annual reports over the past eight years have detailed the step-by-step process of building an organization to meet the demands of the people. Therefore, much factual data concerning the earlier history of the Board is being omitted from this report. The present report deals with the activities of the Board during the preceding year.

Investigation of the Board by Legislative Committee

The greatest problems faced by the Board during the year arose through shortage of liquor. On October 8, 1942, by order of the War Production Board, the facilities of all distilleries were converted to the production of industrial alcohol, since which date no whiskey has been made.

It was evident that there would not be enough whiskey to supply the demand and on November 7, 1942, the Board initiated a rationing program. Washington was one of the first states to adopt such a program and by meeting this problem early and realistically it has been able to handle the distribution of liquor more equitably and liberally than otherwise would have been possible.

A summary of the rationing program throughout the year is given under "Merchandise Division." There was a great amount of criticism of the Board when the rationing program first was started. It was difficult to convince the public that there was a need for rationing.

The Session of the Legislature which met in January, 1943, appointed a committee from the House to investigate the rationing program and other activities of the Board. That the committee felt the Board acted wisely is

Tenth Report

shown by the following paragraph from its Report to the Chairman of the Liquor Control Committee of the House of Representatives:

"It is the opinion of the committee that the Board proceeded in every respect as any well managed state agency should do in time of war and the committee was particularly impressed with the excellent system of records maintained by the Board.

Respectfully submitted,

/s/ RALPH C. YOUNG, Chairman,

/s/ C. E. ERDAHL,

/s/ B. ROY ANDERSON."

Monopoly Group

The Board continued its membership in the National Alcoholic Beverage Control Association, an organization made up of the liquor commissions of the following fourteen monopoly states: Alabama, Idaho, Iowa, Maine, Montana, New Hampshire, Oregon, Ohio, Virginia, Washington, West Virginia, Wyoming, Michigan, and Utah.

At the September meeting of the association, Evro M. Becket, chairman of the Washington board, was elected president of the National Alcoholic Beverage Association for the ensuing year. This gave national recognition to the quality of work done by the Washington board.

Purchase of Liquor Stocks of Two Kentucky Distilleries

The last few weeks of the fiscal year saw the beginning of negotiations for the acquisition by the Washington State Liquor Control Board, in conjunction with the Oregon Liquor Control Commission, of whiskey owned by the Waterfill and Frazier and Shawhan Distillery Companies. By this transaction the two liquor control boards purchased all the shares of stock of these two corporations, then immediately caused the corporations to sell their distilling plants, raw materials and miscellaneous assets. When these companies had disposed of all but their bulk whiskey, they were dissolved and the title to the whiskey was thus vested in the respective liquor control boards. A contract was made with the purchasers of the distilling plants to bottle the bulk liquor.

In this manner the Board expects to obtain approximately one-half million cases of good quality bourbon whiskey which should, during the next two years, greatly alleviate the shortage which is growing progressively acute.

It is estimated that the ultimate cost of the whiskey will be about the same, or a little less than the Board formerly paid for whiskey of like value by the case.

Revenues

Liquor sales during the year under review totaled \$39,434,318.95, an increase of 56 per cent over the previous year. The net revenue produced by the Board's Merchandise Division was \$8,870,507.17 compared with \$6,882,913.58 for the previous year. The Board's License and Enforcement Division produced a revenue of \$1,772,478.22 compared with \$1,513,281.24 the previous year. This increase was brought about by increases in the beer and wine tax and a decrease in operating expense. The net profit of both divisions was \$10,592,985.39. Not included in this figure are the sales taxes collected by the Board. The 10 per cent sales tax amounted to \$3,966,738.14,

the 3 per cent sales tax to \$1,244,499.25 and the 10 per cent War Liquor Tax which became effective April 1, 1943, to \$2,235,151.35, bringing the total gain from profits and taxes collected to \$18,039,374.13 for the year. During the year the Board distributed to the cities, counties and state \$6,000,000.00 out of profits. The Board also paid over to the State Treasurer \$7,446,388.74 in taxes collected. Of this sum \$2,235,151.35 represented the War Liquor Tax, which the State Treasurer distributed to the cities, counties and the state. Since February, 1934, the Board has distributed out of profits and taxes collected, \$64,062,426.22.

Consumption of Alcoholic Beverages

During the year ended September 30, 1943, sales of spirituous liquor in gallons increased 18.32 per cent over the previous year. During the same period there was an increase of 33.45 per cent in the gallons of wine sold in the state. The sales of wine in gallons made by the Board increased 54.26 per cent while those made by Washington state wineries to licensed outlets increased 22.56 per cent. The increase in beer gallonage sales was 16.05 per cent. This increased consumption of alcoholic beverages is due, no doubt, to a substantial increase in our population, plus the larger purchasing power on the part of the buying public.

Advertising

Since all advertisers have followed a policy of self-imposed regulations, the Board has not found it necessary to make any change in the Advertising Guide, keeping all advertising regulations at a minimum. Almost all copy submitted by advertisers has been conservative and dignified. In the matter of interpretation, the regulations have been liberally construed in approving advertising promoting the sale of war bonds and stamps.

Personnel

Replacement of personnel became a factor in administration during the 1942 fiscal year. The Board was faced with a serious problem in this respect, the turnover in the department as a whole approximating 50 per cent. Outstanding was the turnover in the stores division, which approximated 70 per cent, the replacement of women as clerks being over 25 per cent. The administrative office, including inspection, shows a turnover of about 50 per cent. Analysis of resignations discloses that the majority of the employees who resigned did so to enter war work. Military leaves of absence were granted to nine employees, who entered some branch of the service. Nine employees died during the year. Notwithstanding the fact that in practically every division the work was greatly increased, the entire personnel shows twenty-four fewer employees than for the previous year. Due to the ever-increasing cost of living, general increases in salaries, especially in the lower brackets, were made effective throughout the department.

The following statistical compilation sets forth in detail changes made during the year:

corded for 1943. It is noticeable, however, that the greater number of these violations took place in the first half of the year showing that the inspectors' efforts undoubtedly were having the desired effect in curbing these violations.

Considerable stress also was placed on infractions involving consumption by intoxicated persons and permitting intoxicated persons to remain on licensed premises. Reports on such infractions resulted in warnings and other disciplinary action against the operators. A number of violations covering election-day sales were brought to the attention of the Board. Sales made previous to the hours for opening the polls were attributed to confusion on the part of the licensed operators. Repeated verbal warnings, however, failed to stop this practice and more drastic action was taken. It is not anticipated this type of violation will cause any future trouble.

Hearings

During the past year three hundred fourteen premises were involved in investigations, compared with one hundred twenty-eight the preceding year. These cases resulted in nineteen cancellations; two hundred one suspensions, sixty-six suspended-suspensions and eight denials. Under the present procedure charges of not so serious a nature as to probably result in cancellation of the license are referred to the examiner for investigation. If the licensee prefers to admit the charges, he may sign a waiver of formal hearing. A report is then made to the Board by the examiner and after deliberation an order is entered for final disposition of the matter. In all cases, should the licensee desire, he may request a formal hearing. This method has worked out to the general satisfaction of all concerned and with a minimum of expense to the state. Of the three hundred fourteen investigations referred to, eighty-seven resulted in formal hearings and two hundred eight were settled informally. Thirty-eight of the licensees, having formal hearings, requested and were granted a further hearing before the Board.

Comparative figures relative to hearings throughout the ten-year period may be found in the statistical portion of this report.

BONA FIDE CLUBS

The licenses of eighty-four *bona fide* clubs were renewed during the fiscal year, the same number as the preceding year. Two clubs suspended operations for the duration, due to war conditions, leaving eighty-two active *bona fide* club licenses at the end of the fiscal year.

Twenty-eight retail licenses were issued to *bona fide* clubs holding retail licenses only, four being issued to clubs not previously licensed. Three of these clubs discontinued operations during the year, leaving twenty-five active retail licenses in this group—an increase of one over the 1942 fiscal year.

Under the rationing program club members were allocated 50 per cent of the amount of liquor they received during 1942. To meet the problem of decreased supplies and increased membership, clubs generally suspended pool services one day each week and restricted hours of service on other days. The club membership increase for the year was approximately 20 per cent.

The division received thirty-seven inquiries and applications for *bona fide* club licenses, upon which full investigation and reports were made.

The efficiency of the standard pool accounting system established in the clubs in 1942, was reflected in the general improvement of pool records and operations and in a better understanding of pool regulations by those in charge of this phase of club operations.

BREWERS AND BEER WHOLESALERS

During the 1943 fiscal year thirteen licenses were issued to beer manufacturers, all being relicensed from the previous year. One hundred forty-five beer wholesaler licenses were issued, ten less than the previous year.

Production and Sales

Total beer sales in the state, including Washington and out-of-state brewers, amounted to 1,032,282 barrels, compared with 889,484 barrels during the previous year, an increase of 142,798 barrels, or 16%. Based on a state tax of one dollar on each thirty-one gallon barrel, the revenue derived from actual sales of beer in the state during the 1943 fiscal year was \$1,032,282. Washington brewers sold 81.35% and out-of-state brewers 18.65% of the total amount of beer sold in the state during the year. Washington brewers sold 839,718 barrels in the state, compared with 692,503 barrels the previous year, an increase of 147,215 barrels, or 21.26%. Out-of-state brewers sold 192,564 barrels in the state during the year under review, compared with 196,981 barrels during the 1942 fiscal year, a decrease of 4,417 barrels, or 2.24%. These figures are based on reports made by the brewers, showing actual sales, and not on beer revenue stamps purchased from the Board during that period. Washington brewers produced 1,332,195 barrels, compared with 1,143,548 barrels the previous year, an increase of 188,647 barrels, or 16.5%. Export of Washington beer amounted to 434,895 barrels, approximately 33% of the total state production, and compared with 374,427 barrels the previous year, shows an increase of 60,468 barrels, or 16%. Sales to military and naval reservations are considered out-of-state sales and not taxed.

Certificates of Approval

Certificates of approval were issued to forty-five out-of-state brewers, fifteen more than the previous year.

Beer Importers

Seventy-six beer importers were licensed during the 1943 fiscal year, a decrease of eleven compared to the previous year.

Beer Salesmen—Agents' Licenses

During the 1943 fiscal year five hundred seventy-three persons representing brewers, beer importers and distributors were issued agents' licenses, as required by Section 23-I of the Liquor Act, a reduction of one hundred fifty-eight compared with the previous year.

Hearings on Brewers and Beer Wholesalers

Formal complaint filed against one brewery resulted in Board Order fixing a monetary penalty. Another brewery, after a hearing held in the year previous, paid a monetary penalty in lieu of suspension of license. Formal complaint was filed against a beer wholesaler, the charges were conceded and Board Order entered, resulting in monetary penalty. Upon investigation only, sixteen Board Orders were issued during the 1943 fiscal year. Three major monetary penalties and four minor monetary penalties were imposed. Nine wholesalers were penalized by suspension of sales to specific retailers.